

41-8010

LAKELAND LIBRARY COOPERATIVE

GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

For the Year Ended September 30, 2004



REHMANN ROBSON

Certified Public Accountants

AUDITING PROCEDURES REPORT

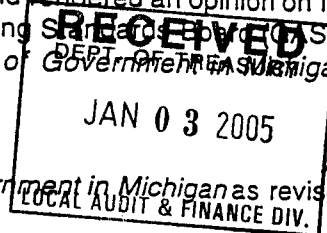
Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LAKELAND LIBRARY COOPERATIVE	County KENT
Audit Date SEPTEMBER 30, 2004	Opinion Date NOVEMBER 10, 2004	Date Accountant Report Submitted to State: DECEMBER 21, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address PO BOX 6547	City GRAND RAPIDS	State MI	ZIP 49516-6547
Accountant Signature 			

LAKELAND LIBRARY COOPERATIVE

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A member of THE REHMANN GROUP

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INDEPENDENT AUDITORS' REPORT

November 10, 2004

To the Board of Directors
Lakeland Library Cooperative
Grand Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund, of Lakeland Library Cooperative as of and for the year ended September 30, 2004, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Lakeland Library Cooperative, as of September 30, 2004, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Rehmann Robson

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lakeland Library Cooperative (the "Cooperative"), we offer readers of the Lakeland Library Cooperative financial statements this narrative review and analysis of the financial activities for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

1. Budget Stabilization Fund

Because of their prudent budgeting practices, the Cooperative Board restored this designated fund balance to its full level of \$250,000 at the end of FY 2003. During 2004, this fund remained untouched, and ended the fiscal year still at its full allotment.

2. Other Fund Balances

In keeping with their practice of planning for future contingencies and potential major expenditures, the Cooperative Board has also designated funds for a number of important purposes: Building Improvements (\$30,000; new as of the end of FY 2004); Network Upgrades (\$30,000; new as of the end of FY 2004); and Capital Replacements (\$140,596; up from \$90,596 at the end of FY 2003). In addition, the Board maintained an "Undesignated" fund balance of \$42,083 for use as a contingency fund in FY 2005.

3. Shared System

During fiscal year 2004, the final purchase payment on the new shared system was made. This major purchase was accomplished using a combination of existing funds and cash payments from member libraries, with no library having to borrow money for this purpose. The new system has resulted in significant improvements in service to library users in West Michigan.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Cooperative's financial statements. The Cooperative's basic financial statements comprise three components:

1. government-wide statements
2. fund financial statement, and
3. notes to the financial statements

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The *statement of net assets* presents information on all of the Cooperative's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Cooperative is improving or deteriorating.

The *statement of activities* presents information showing how the Cooperative's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 9 and 11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Cooperative, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Cooperative is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Cooperative maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Cooperative. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Cooperative adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 9-13 of this report.

The Cooperative does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Cooperative's financial statements. The notes to the financial statements can be found on pages 14 through 20 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

Because this analysis reflects the governmental accounting standards board Statement No. 34, the following tables reflect a comparative analysis of government-wide data.

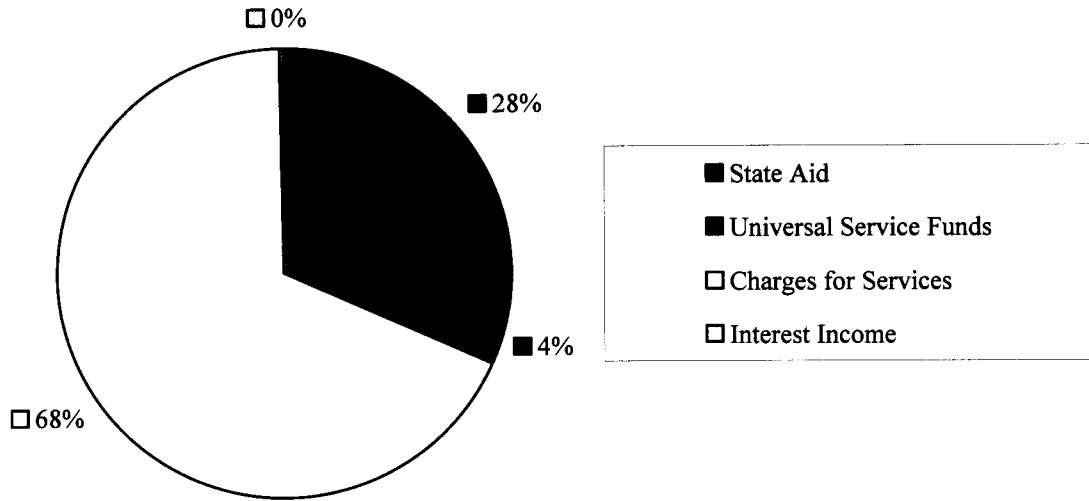
Lakeland Library Cooperative Net Assets

	FY 2003 Governmental Activities	FY 2004 Governmental Activities
Current and other assets	\$ 705,425	\$ 833,042
Capital assets	<u>1,050,876</u>	<u>892,380</u>
Total assets	<u>1,756,301</u>	<u>1,725,422</u>
Long-term liabilities outstanding	42,802	51,281
Other liabilities	<u>74,062</u>	<u>87,169</u>
Total liabilities	<u>116,864</u>	<u>138,450</u>
Net assets:		
Invested in capital assets, net of related debt	1,050,876	968,898
Unrestricted	<u>588,561</u>	<u>618,074</u>
Total net assets	<u>\$ 1,639,437</u>	<u>\$1,586,972</u>

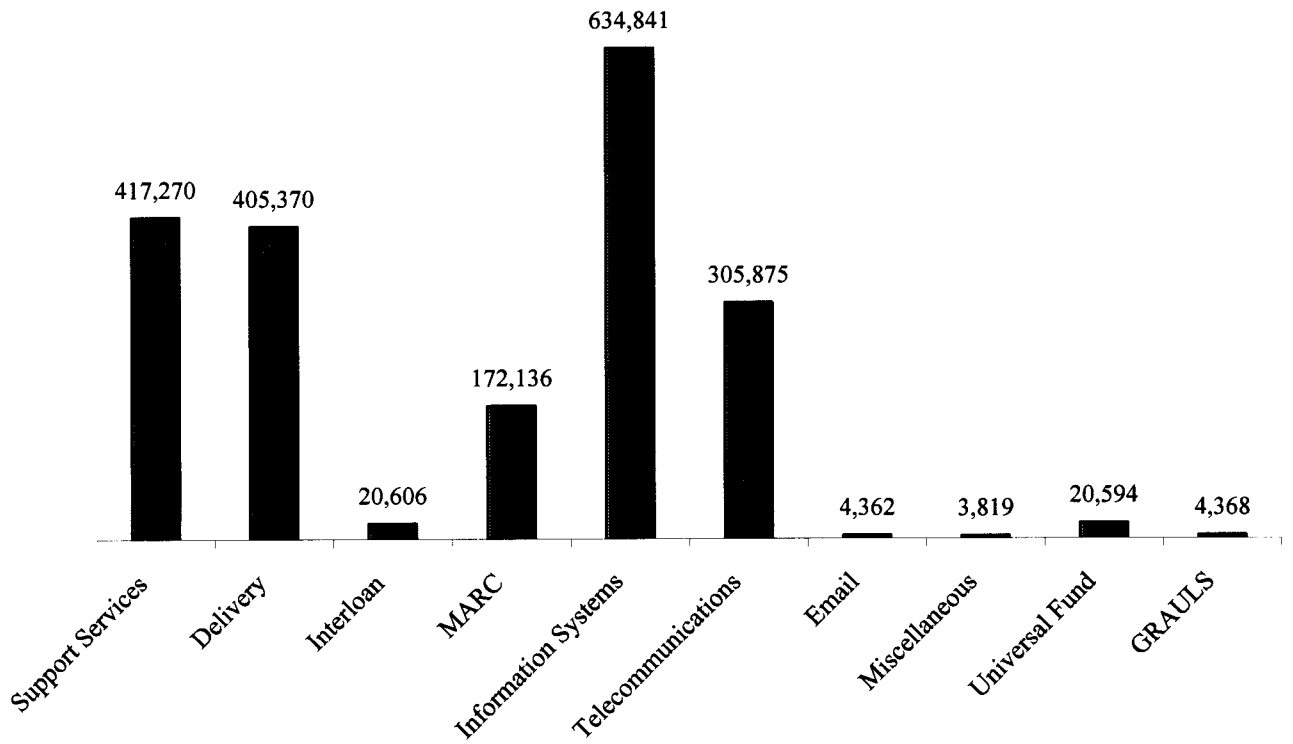
Lakeland Library Cooperative Change in Net Assets

	FY 2003 Governmental <u>Activities</u>	FY 2004 Governmental <u>Activities</u>
Revenue:		
Program revenue:		
Charges for services	\$1,468,189	\$1,319,987
General revenue:		
State Aid	510,382	535,830
Universal Service Funds	124,547	76,487
Interest income	<u>6,790</u>	<u>4,472</u>
Total revenue	<u>2,109,908</u>	<u>1,936,776</u>
Expenses:		
Support Services Expenses	372,566	417,270
Delivery Services Expenses	342,621	405,370
Interloan Services Expenses	19,519	20,606
MARC System Expenses	162,837	172,136
Information System Expenses	601,474	634,841
Telecommunication Expense	308,385	305,875
Email Expense	5,094	4,362
Miscellaneous Program Expense	6,278	3,819
Universal Service Fund	-	20,594
GRAULS Expense	<u>7,218</u>	<u>4,368</u>
Total expenses	<u>1,825,992</u>	<u>1,989,241</u>
Change in net assets	283,916	(52,465)
Net assets – beginning of year	<u>1,355,521</u>	<u>1,639,437</u>
Net assets – end of year	<u><u>\$1,639,437</u></u>	<u><u>\$1,586,972</u></u>

Revenues by Source - Governmental Activities



Expenditures - Governmental Activities



Capital Assets and Debt Administration

Capital Assets

Major capital asset purchases during the current fiscal year included the following:

- Information System final payment.
- Building improvements.
- Office equipment and furniture.
- Mobile Laptop Training Center.

Lakeland Library Cooperative Capital Assets (net of depreciation)

	Governmental <u>Activities</u>
Land and Improvements	\$ 76,518
Office Furniture	46,328
Building	206,597
Building Improvements	53,871
Vehicles	-
Training Center Furniture and Equipment	22,907
Information System	<u>562,677</u>
Total	<u>\$ 968,898</u>

Additional information on the Cooperative's capital assets can be found in Note 7 on page 20 of this report.

Long-term debt

Lakeland Library Cooperative Outstanding Debt

	Governmental <u>Activities</u>
Compensated absences	<u>\$ 51,281</u>

Additional information on the Cooperative's long-term debt can be found in Note 4 on page 19 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Cooperative's budget for the 2004-2005 fiscal year:

- Based on legislative action, we anticipated no change in State Aid revenue for fiscal year 2005, and budgeted for an overall deficit of \$43,956. This budgetary deficit will be covered by a combination of line-item savings during the fiscal year (i.e.: not expending every line item by 100%) and use of the Undesignated Fund Balance.

Financial Analysis of the Government's Funds

As of the end of the current fiscal year the combined fund balance/net assets of \$1,586,972 reflects a decrease of \$52,465 from the previous year. This decrease was due to the implementation of GASB 34 depreciation procedures, and the fact that there were limited capital purchases during the fiscal year.

Significant changes in the original budget were as follows:

1. Additional Universal Service Fund expenses reflect payments to member libraries of funds being held on their behalf.
2. The decrease in Interest Income was due to lower interest rates combined with somewhat lower cash balances on hand throughout the year, due in part to State Aid being paid in two 50% payments, rather than in the 80%/20% schedule previously followed by the Library of Michigan in making these payments..
3. The GRAULS Expense reflects the publication of one edition of the Grand Rapids Area Union List of Serials during the Fiscal Year (down from two editions the previous year).

Requests for Information

This financial report is designed to provide a general overview of Cooperative's finances for all those with an interest in the Cooperative's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director or Administrative Services Manager, Lakeland Library Cooperative, 4138 3 Mile Road NW, Grand Rapids, Michigan 49544-1134.

BASIC FINANCIAL STATEMENTS

LAKELAND LIBRARY COOPERATIVE

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

SEPTEMBER 30, 2004

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash and deposits	\$ 683,405	\$ -	\$ 683,405
Receivables:			
Fees and services	18,545	-	18,545
Prepaid items	54,574	-	54,574
Land	-	76,518	76,518
Other capital assets, net of accumulated depreciation	-	892,380	892,380
TOTAL ASSETS	\$ 756,524	968,898	1,725,422
LIABILITIES			
Accounts payable	26,854	-	26,854
Member prepayment	21,639	-	21,639
Accrued liabilities	38,676	-	38,676
Long-term liabilities:			
Due after one year	-	51,281	51,281
TOTAL LIABILITIES	87,169	51,281	138,450
FUND BALANCE/NET ASSETS			
Fund balance:			
Reserved for prepaid items	54,574	(54,574)	-
Unreserved			
Designated for budget stabilization	250,000	(250,000)	-
Designated for member USF funding	122,102	(122,102)	-
Designated for building improvements	30,000	(30,000)	-
Designated for network upgrades	30,000	(30,000)	-
Designated for capital replacements	140,596	(140,596)	-
Undesignated	42,083	(42,083)	-
TOTAL FUND BALANCE	669,355	(669,355)	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 756,524		
Net Assets:			
Investment in capital assets		968,898	968,898
Unrestricted		618,074	618,074
Total Net Assets		\$ 1,586,972	\$ 1,586,972

The accompanying notes are an integral part of these financial statements.

LAKELAND LIBRARY COOPERATIVE

Reconciliation of Fund Balances on the Balance Sheet for the General Fund to Net Assets of Governmental Activities on the Statement of Net Assets

September 30, 2004

Fund balances - general fund	\$ 669,355
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets	2,040,330
Deduct - accumulated depreciation	(1,071,432)
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - compensated absences	<u>(51,281)</u>
Net assets of governmental activities	<u><u>\$ 1,586,972</u></u>

The accompanying notes are an integral part of these financial statements.

LAKELAND LIBRARY COOPERATIVE

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>GENERAL FUND</u>	<u>ADJUSTMENTS</u>	<u>STATEMENT OF ACTIVITIES</u>
EXPENDITURES/EXPENSES			
General operating			
Support services	\$ 389,771	\$ 27,499	\$ 417,270
Delivery service	388,985	16,385	405,370
Interloan service	20,606	-	20,606
Machine-readable cataloging system	171,108	1,028	172,136
Information system	610,537	24,304	634,841
Telecommunication	285,230	20,645	305,875
E-mail	3,766	596	4,362
Miscellaneous program	3,819	-	3,819
Universal Service Fund	20,594	-	20,594
GRAULS	4,368	-	4,368
TOTAL EXPENDITURES/EXPENSES	<u>1,898,784</u>	<u>90,457</u>	<u>1,989,241</u>
PROGRAM REVENUES			
Charges for services	<u>1,319,987</u>	-	<u>1,319,987</u>
Net program expenses			<u>(669,254)</u>
GENERAL REVENUES			
State aid	535,830	-	535,830
Universal service funds	76,487	-	76,487
Interest income	4,472	-	4,472
TOTAL GENERAL REVENUES	<u>616,789</u>	<u>-</u>	<u>616,789</u>
Net change in fund balance	37,992	(37,992)	-
Changes in net assets	-	(52,465)	(52,465)
Fund Balance/Net Assets			
Beginning of the year	<u>631,363</u>	<u>1,008,074</u>	<u>1,639,437</u>
End of the year	<u><u>\$ 669,355</u></u>	<u><u>\$ 917,617</u></u>	<u><u>\$ 1,586,972</u></u>

The accompanying notes are an integral part of these financial statements.

LAKELAND LIBRARY COOPERATIVE

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the General Fund to the Statement of Activities

For the year ended September 30, 2004

Net change in fund balance - general fund	\$ 37,992
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	123,342
Deduct - depreciation expense	(205,320)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in the accrual for compensated absences	<u>(8,479)</u>
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Change in net assets of governmental activities	<u><u>\$ (52,465)</u></u>
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The accompanying notes are an integral part of these financial statements.

LAKELAND LIBRARY COOPERATIVE

GENERAL FUND STATEMENT OF REVENUES EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2004

	BUDGET AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL	AMOUNTS	WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUE				
General operating income	\$ 108,745	\$ 142,732	\$ 143,573	\$ 841
State aid	475,886	535,830	535,830	-
Machine-readable cataloging system income	229,571	229,584	229,584	-
Information systems income	511,461	643,022	643,022	-
Telecommunications income	284,724	285,230	285,230	-
E-Mail income	7,520	10,522	10,522	-
Miscellaneous programs income	9,000	3,995	3,995	-
Universal Service Fund income	-	76,356	76,487	131
GRAULS Income	-	4,053	4,061	8
Interest Income	6,000	3,332	4,472	1,140
TOTAL REVENUE	1,632,907	1,934,656	1,936,776	2,120
EXPENDITURES				
General operating				
Support services	369,479	404,213	389,771	14,442
Delivery service	378,374	398,512	388,985	9,527
Interloan service	22,024	22,024	20,606	1,418
Machine-readable cataloging system	181,008	181,008	171,108	9,900
Information systems	404,343	644,594	610,537	34,057
Telecommunication	284,724	285,230	285,230	-
E-Mail	4,500	4,500	3,766	734
Miscellaneous program	9,000	4,955	3,819	1,136
Universal Service Fund		20,594	20,594	-
GRAULS	-	4,368	4,368	-
TOTAL EXPENDITURES	1,653,452	1,969,998	1,898,784	71,214
Net change in fund balance	(20,545)	(35,342)	37,992	73,334
Fund Balance				
Beginning of the year	631,363	631,363	631,363	-
End of the year	<u>\$ 610,818</u>	<u>\$ 596,021</u>	<u>\$ 669,355</u>	<u>\$ 73,334</u>

The accompanying notes are an integral part of these financial statements.

LAKELAND LIBRARY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lakeland Library Cooperative (the "Cooperative") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Lakeland Library Cooperative (the "Cooperative") was formed by the authority of Public Libraries Act 89 of 1977. The Cooperative provides interlibrary loan, reference and other services to member libraries in Allegan, Barry, Ionia, Kent, Montcalm, Muskegon, Newaygo and Ottawa counties.

The Reporting Entity

The Cooperative Library Board, a nine-member group appointed in accordance with a formula stated in Article V, Section I of the Cooperative bylaws, has governance responsibilities over all activities related to the Lakeland Library Cooperative. The Board receives funding from local, state and federal government sources and must comply with concomitant requirements of these funding entities. However, the Board is not included in any other governmental "reporting entity" as defined by the Government Accounting Standards Board since the Board members, who are appointed (as legislated by Public Libraries Act 89 of 1977) from Cooperative members, have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

LAKELAND LIBRARY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for the financial resources of the Cooperative.

Budgetary Data

The annual budget is prepared by the Cooperative's management and adopted by the Cooperative Board; subsequent amendments are approved by the Cooperative Board. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles. The budget statement (statement of revenue, expenditures and changes in fund balances – budget and actual – general fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the Cooperative Board is included in the financial statements.

LAKELAND LIBRARY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property and equipment are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Cooperative as assets with an initial, individual cost of more than \$500 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (general fund balance sheet and statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

Depreciation is recorded over the estimated useful lives (ranging from three to twenty years) of the assets, using the straight-line method for all capital assets.

	<u>Years</u>
Office furniture	3-15
Building	30
Building improvements	5-20
Vehicles	5
Training center furniture and equipment	3
Information system	3-5

Accrued Vacation and Sick Leave

Under terms of the Cooperative policies, full time employees are granted 12 days of sick leave per year. Resignees shall be paid \$.50 per day for accumulated sick leave multiplied by the years of service, if greater than 10. Retirees are paid \$1.00 per day for accumulated sick leave multiplied by the years of service, if greater than 10. Vacation time is paid at the hourly rate of the employee.

Deferred Compensation Plan

The Cooperative offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Cooperative employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Cooperative's financial statements.

LAKELAND LIBRARY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

2. CASH DEPOSITS AND INVESTMENTS

Deposits

The Cooperative's bank deposits with a carrying value of \$683,405 were reflected in the accounts of a bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$707,550, of which \$100,000 was covered by federal depository insurance, and \$607,550 was uninsured and uncollateralized. The Cooperative believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Cooperative evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Cooperative is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools composed of authorized investment vehicles.

3. RETIREMENT PLANS

City of Grand Rapids General Retirement System

Plan Description

The Cooperative contributes to the City of Grand Rapids General Retirement System (City Retirement System), which is the administrator of a single-employer, trustee defined benefit plan. This plan covers all of the Cooperative's employees who became eligible prior to October 1, 1989. The Cooperative participates under a cost-sharing arrangement with the City. The City Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 233 E. Fulton, Suite 216, Grand Rapids, MI 49503.

Funding Policy

The funding policy for periodic employer contributions are at actuarially determined rates that, expressed as percentages of annual covered payroll, are intended to accumulate sufficient assets to pay benefits when due.

Contributions

The employer contribution rate totals 12.05 percent for the period October 1, 2003 through June 30, 2004 and 16.30 percent for the period July 1, 2004 to September 30, 2004. Covered employees contribute 4.0 percent of eligible wages. The Cooperative's required and actual contributions to the City Retirement System plan for the years ended September 30, 2004, 2003 and 2002, were \$3,558, \$1,280, and \$168, respectively.

LAKELAND LIBRARY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

3. RETIREMENT PLANS (CONTINUED)

Cooperative Defined Contribution Plan

Plan Description

The Cooperative participates in a defined contribution pension plan established by the Cooperative to provide benefits at retirement to the Cooperative director. At September 30, 2004 there was one plan member. Plan members are not required to contribute. The Cooperative is required to contribute 10% of annual covered payroll. The employer contribution for the year totaled \$8,067. Plan provisions and contribution requirements are established and may be amended by the Cooperative.

Municipal Employees Retirement System of Michigan

Plan Description

The Cooperative participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering certain Cooperative employees. The System is administered by the MERS retirement board.

Act No. 220 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Plan Contributions

The Cooperative is required to contribute at an actuarially determined rate of 2.85% of covered payroll; the current year amount was \$12,087. Participating employees are required to contribute 4% of covered payroll to the plan. The contribution requirements of the Cooperative are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the Cooperative and depending on the MERS contribution program adopted by the Cooperative.

For the year ended September 30, 2004, the Cooperative's annual pension cost of \$12,087 for MERS was equal to the Cooperative's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Cooperative's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 30 years.

LAKELAND LIBRARY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

3. RETIREMENT PLANS (CONTINUED)

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 29,207	100%	\$ -
2003	12,699	100%	-
2004	12,087	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$ 302,486	\$ 254,162	\$ (48,324)	119%	\$ 296,489	(16)%
12/31/02	366,102	344,309	(21,793)	106%	413,966	(5)%
12/31/03	429,517	395,515	(34,002)	109%	408,669	(8)%

4. LONG-TERM DEBT

Long-term debt of the Cooperative consists of the following:

	<u>Balance October 1, 2003</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance September 30, 2004</u>	<u>Due Within One Year</u>
Compensated absences	\$42,802	\$8,479	\$ -	\$51,281	\$ -
Totals	\$42,802	\$8,479	\$ -	\$51,281	\$ -

5. LEASES

The Cooperative conducts a portion of its operations with leased vehicles and office equipment. Net rental expense on these leases was \$15,896 for the year ended September 30, 2004. These leases expire through 2007.

The following is a schedule of annual future minimum lease payments required on leases with remaining non-cancelable lease terms in excess of one year as of September 30, 2004:

2005	\$15,896
2006	5,352
2007	<u>3,122</u>
Total	<u>\$ 24,370</u>

LAKELAND LIBRARY COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

6. RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Cooperative has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years. There were no significant reductions in insurance coverage during the past year.

7. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance October 1, 2003	Additions	Deductions	Balance September 30, 2004
Capital assets not being depreciated:				
Land	\$ 76,518	\$ -	\$ -	\$ 76,518
Capital assets being depreciated:				
Office furniture	173,855	6,186	-	180,041
Building	229,553	-	-	229,553
Building improvements	70,351	8,803	-	79,154
Vehicles	119,899	-	-	119,899
Training center furniture and equipment	40,993	12,897	-	53,890
Information system	1,205,819	95,456	-	1,301,275
Total capital assets	1,916,988	123,342	-	2,040,330
Accumulated depreciation				
Office furniture	107,944	25,769	-	133,713
Building	15,304	7,652	-	22,956
Building improvements	19,772	5,511	-	25,283
Vehicles	99,118	20,781	-	119,899
Training center furniture and equipment	23,358	7,625	-	30,983
Information system	600,616	137,982	-	738,598
Total accumulated depreciation	866,112	205,320	-	1,071,432
Net capital assets	\$ 1,050,876	\$ (81,978)	\$ -	\$ 968,898

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